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SUBJECT: SPLM THINKING ON OIL AND SANCTIONS

¶1. (SBU) During the course of their meetings in Juba December 9 to discuss the Lord's Resistance Army (LRA), future GNU Foreign Minister and SPLM member Deng Alor spoke with Senior Advisor on Conflict Resolution Timothy Shortley about SPLM oil interests after 2011 and the effect of sanctions on Sudan.

¶2. (SBU) Deng said that although President Bashir had successfully sidelined the Abyei issue from six-man committee discussions, GNU First Vice President and GOSS President Kiir planned to begin a discussion with Bashir on how the GOSS could continue to share oil beyond 2011 should the South opt for separation during the 2011 referendum. (Note: Currently, Juba does not possess extraction capabilities. However, we understand from other sources that the GOSS has recently entered into discussions with an American business for potential development of an oil refinery to be located in the South. End note.)

¶3. (SBU) Deng said that during Salva Kiir's visit to Addis Ababa, Kiir intended to suggest to Ethiopian Prime Minister Meles Zenawi that President Bashir should begin to think about how to divide oil from the South beyond 2011 if it secedes. Alor said the South is ready to accept a new formula for the division of oil beyond 2011 if the South secedes and that Ethiopia is being helpful on this endeavor.

¶4. (SBU) Regarding sanctions, Deng claimed there is growing support in the North for SPLM demands due to growing unhappiness in the Khartoum business community linked to U.S. sanctions. Deng said the Governor of the Central Bank recently told him that financial sanctions are "biting hard," and asked Deng to use the GoSS relationship with Washington to help him fix it. The Governor reportedly said that the business community is angry with the NCP over the fact they are losing millions in exchange rate costs and can no longer operate in dollars. The Governor told Deng that Sudan's bank in Bahrain had dropped it as a client within the last month.

¶5. (SBU) Comment: It is positive that the SPLM is thinking about methods of sharing oil revenue after 2011, as continued oil revenues will be critical to the stability of both the North and South. Moreover, guarantees of oil revenue sharing could help solve the Abyei impasse. SPLM expectations of their talks in Addis Ababa may be unrealistic, however, since the Ethiopians reportedly are not fully supportive of Southern secession. The comments on U.S. sanctions track with complaints that we hear from many northern businessmen (although some claim corruption has more to do with the problems than sanctions). If the SPLM can help "deliver" some sort of sanctions relief for the North, perhaps in targeted industries, this would vastly improve SPLM standing in the North.

FERNANDEZ